

SOUTH CAROLINA STATE UNIVERSITY
ORANGEBURG, SOUTH CAROLINA

SINGLE AUDIT

YEAR ENDED JUNE 30, 2003

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

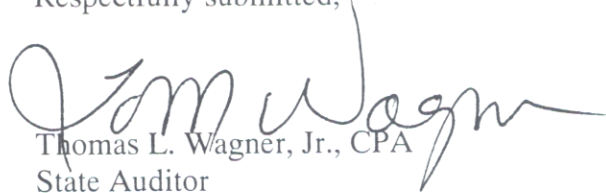
September 27, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
South Carolina State University
Orangeburg, South Carolina

The report on compliance and internal control over financial reporting, and the report on compliance and internal control over compliance applicable to each major program of South Carolina State University for the fiscal year ended June 30, 2003, were issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of State Auditor. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with the basic financial statements of South Carolina State University for the fiscal year ended June 30, 2003, issued by Rogers & Laban, PA, Certified Public Accountants, dated August 26, 2004.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA STATE UNIVERSITY

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of South Carolina State University (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1 to 03-5.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-6 to 03-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

We also noted other matters involving the internal control over financial reporting as described on pages 24 to 26.



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This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Laban, PA

August 26, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
ITS MAJOR PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SUPPLEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina State University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

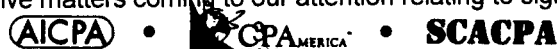
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying Schedule of Findings and Questioned Costs as items 03-15 to 03-18.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or



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operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-16 to 03-18.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

We have audited the financial statements of South Carolina State University as of and for the year ended June 30, 2003, and have issued our report dated August 26, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan, PA

August 26, 2004

SOUTH CAROLINA STATE UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Direct Programs:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	\$ 557	
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	3,129,732	
1890 Institution Capacity Building Grants	10.216	333,087	
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	51,112	
Cooperative Extension Service	10.500	171,641	
Cooperative Forestry Assistance	10.664	7,183	
Rural Cooperative Development Grants	10.771	139,525	
U.S. Department of Commerce			
Educational Partnership Program	1.481	13,816	
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	35,899	
Community Economic Adjustment Planning Assistance	12.607	470	
Basic, Applied, and Advanced Research in Science and Engineering	12.630	9,604	
U.S. Department of Housing and Urban Development			
Student/Faculty Housing	14.999	14,236	
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	6,951	
U.S. Department of Transportation			
Highway Planning and Construction	20.205	414	
Highway Training and Education	20.215	1,536,586	192,502
National Motor Carrier Safety	20.218	54,265	
Federal Transit - Metropolitan Planning Grants	20.505	14,570	
University Transportation Centers Program	20.701	563,304	
National Aeronautics and Space Administration			
Aerospace Education Services Program	43.001	196,225	
Curriculum Enhancement Space Science	43.999	331,093	
Space Science Academy	43.999	22,875	
Enhancement of Space Science Research Program	43.999	194,070	
SCSU Center for NASA Research and Technology	43.999	348,293	
National Science Foundation			
Biological Sciences	47.074	460,219	2,536

SOUTH CAROLINA STATE UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Veterans Affairs			
Veterans Administration Funds	64.999	833	
Associative Learning in Veterans with and without Combat Experience	64.999	38,275	
U.S. Department of Energy			
Office of Environmental Cleanup and Acceleration	81.104	5,094	
University Reactor Infrastructure and Education Support	81.114	101,831	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, Analysis/Assistance	81.117	7,941	
Phytoplankton Research Program	81.999	74,935	
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	672,218	
Higher Education - Institutional Aid	84.031	2,413,959	
Federal Work-Study Program	84.033	349,564	
Federal Perkins Loan Program - Federal Capital Contributions	84.038	2,027,153	
TRIO - Student Support Services	84.042	290,207	
Federal Pell Grant Program	84.063	6,753,348	
TRIO - Educational Opportunity Centers	84.066	31,750	
Minority Science and Engineering Improvement	84.120	20,315	
Business and International Education Projects	84.153	60,302	
Special Education - Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	155,434	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	249,096	
Teacher Quality Enhancement Grants	84.336	932,257	78,214
Mathematics and Science Partnerships	84.366	2,050	
U.S. Department of Health and Human Services			
Maternal and Child Health Federal Consolidated Programs	93.110	5,767	
Mental Health Research Grants	93.242	23,518	
National Center on Minority Health and Health Disparities	93.375	40,831	
Community Services Block Grant - Discretionary Awards	93.570	86,118	
Head Start	93.600	2,292	
Child Health and Human Development Extramural Research	93.865	24,243	
Family and Community Violence Prevention Program	93.910	191,923	
Rural Health Outreach and Rural Network Development Program	93.912	5,788	
Total Direct Programs		<u>22,202,769</u>	<u>1,273,252</u>

SOUTH CAROLINA STATE UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
Passthrough Other South Carolina State Agencies:			
U.S. Department of Agricultural			
Passed Through SC Department of Social Services			
Summer Food Service Program for Children	10.559	47,349	
State Administrative Matching Grants			
for Food Stamp Program	10.561	361	
U.S. Department of Commerce			
Passed Through South Carolina Sea Grant Consortium			
Sea Grant Support	11.417	24,019	
U.S. Department of Justice			
Passed Through SC Department of Public Safety			
Bulletproof Vest Partnership Program	16.607	8,775	
Passed Through SC Department of Alcohol and			
Other Drug Abuse			
Enforcing Underage Drinking Laws Program	16.727	8,180	
U.S. Department of Transportation			
Passed Through SC Department of Public Safety			
Highway Planning and Construction	20.205	48,808	14,453
Passed Through SC Department of Transportation			
Federal Transit - Capital Investment Grants	20.500	174,074	
National Aeronautics and Space Administration			
Passed Through College of Charleston			
Aerospace Education Services Program	43.001	3,626	
Passed Through Clemson University			
Microdosimetric Characterization of Space			
Radiation Environments	43.999	11,998	
Passed Through SC Research Authority			
Development Capacity for Aircraft Structures	43.999	10,357	
National Science Foundation			
Passed Through University of South Carolina			
Biological Sciences	47.074	1,000	
Passed Through SC Department of Education			
Education and Human Resources	47.076	103,908	
Passed Through University of Clemson University			
Education and Human Resources	47.076	17,389	
Passed Through University of South Carolina			
Education and Human Resources	47.076	26,982	
Small Business Administration			
Passed Through University of South Carolina			
Small Business Development Center	59.037	168,608	

SOUTH CAROLINA STATE UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Environmental Protection Agency			
Passed Through SC Department of Health and Environment			
Nonpoint Source Implementation Grants	66.460	144	
U.S. Department of Energy			
Passed Through Medical University of South Carolina Academic Partnerships	81.999	44,391	
U.S. Department of Education			
Passed Through SC Department of Education			
Vocational Education - Basic Grants to States	84.048	8,400	
Safe and Drug-Free Schools and Communities State Grants	84.186	1,061	
Mathematics and Science Partnerships	84.366	22,725	
Passed Through University of South Carolina			
Improving Teacher Quality State Grants	84.367	10,064	
U.S. Department of Health and Human Services			
Passed Through University of South Carolina			
National Center for Research Resources	93.389	243,669	
Passed Through SC Department of Health and Environment			
Child Care and Development Block Grant	93.575	5,837	
Passed Through SC Department of Social Services			
Child Welfare Services Training Grants	93.648	156,196	
Passed Through Medical University of South Carolina			
Geriatric Education Centers	93.969	6,441	
		<hr/>	<hr/>
Total Passed Through Other South Carolina State Agencies		<hr/> 1,154,362 <hr/>	<hr/> 14,453 <hr/>
Passthrough Other Than State Agencies:			
U.S. Department of Agricultural			
Passed Through Florida State University			
Higher Education Challenge Grants	10.217	13,457	
U.S. Department of Commerce			
Passed Through Florida A&M University			
Educational Partnership Program	11.481	216,914	
National Aeronautics and Space Administration			
Passed Through University of Alabama			
Aerospace Education Services Program	43.001	5,623	
Passed Through Tennessee State University			
Center for Automated Space Science	43.999	65,000	

SOUTH CAROLINA STATE UNIVERSITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
U.S. Department of Energy			
Passed Through South Carolina Universities Research and Education Foundation			
Environmental Research Program	81.999	<u>286,000</u>	<u>115,180</u>
Total Passed Through Other Than State Agencies		<u>586,994</u>	<u>115,180</u>
Total Indirect Programs		<u>1,741,356</u>	<u>129,633</u>
Total Federal Assistance		<u><u>\$ 23,944,125</u></u>	<u><u>\$ 1,402,885</u></u>

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of Accounting

**SOUTH CAROLINA STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2003

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated August 26, 2004 on the financial statements of the University for the year ended June 30, 2003 was issued.
2. Reportable conditions related to internal control over financial reporting were noted as detailed in findings 03-7 through 03-15. All of the findings reported are material weaknesses.
3. Instances of noncompliance which were material to the financial statements were noted as described in findings 03-1 to 03-6.

FEDERAL AWARDS:

4. A unqualified opinion on compliance for the major programs dated August 26, 2004 was issued.
5. Findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133 are reported as findings 03-16 to 03-19.
6. The major programs of the University are as follows:

CFDA #	Program Title
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University
20.215	Highway Training and Education
47.074	Biological Science
59.037	Small Business Development Center
84.007	Federal Supplemental Education Opportunity Grants
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program-Federal Capital Contribution
84.063	Federal Pell Grant Program

7. The dollar threshold used to distinguish between Type A and Type B programs was \$675,509.
8. The University was not determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

03-1 INDIRECT COSTS DUE GENERAL FUND OF THE STATE NOT TIMELY REMITTED

STATEMENT OF CONDITION:

The University did not timely remit the indirect costs for the years June 30, 2003 to the General Fund of the State as required. The University owes the State approximately \$369,000 for 2003 and \$226,000 for 2002. The same condition was cited in the prior year's management letter.

CRITERIA:

South Carolina Code of Laws Section 2-65-70.

EFFECT OF CONDITION:

Failure to comply with State laws and regulations

CAUSE OF CONDITION:

Shortage of financial resources and failure of University personnel to comply with requirement.

RECOMMENDATION

Ensure that all indirect costs recoveries are receipted to the correct subfund at the State to ensure that the amounts are remitted timely.

03-2 REQUIRED APPROVAL FOR LEASES NOT OBTAINED

STATEMENT OF CONDITION:

The University entered into two agreements in prior years for which the required State Budget and Control Board Office of General Services approval was not received. The first lease was with the South Carolina State University Foundation (the Foundation) for real estate located near the campus in Orangeburg. Total rental expense under this lease for the year ended June 30, 2003 was approximately \$23,000. The other lease was for the STATE room at the Columbia Metropolitan Airport. This agreement was actually between the Foundation and the Columbia Airport Commission (the Commission) and was structured as a license agreement. The University signed an agreement with the Foundation that they would be responsible for the payments to the Commission for the annual license agreement and would also pay the cost of operations for the room. Total expenses attributable to this room for the year ended June 30, 2003 were approximately \$37,000.

CRITERIA

Section 19-446.1000 of the South Carolina Code of Regulations requires the approval of the Office of General Services for the lease, rental or use of non state-owned real estate.

EFFECT OF CONDITION:

Failure to comply with State regulations.

CAUSE OF CONDITION:

University personnel were apparently not aware of this requirement in entering into agreements with related parties.

RECOMMENDATION:

We recommend that the Office of General Services as required approve all agreements for the use of real property.

03-3 ANNUAL PERSONNEL REVIEWS NOT PERFORMED

STATEMENT OF CONDITION:

The University is not performing annual performance reviews on all personnel as required.

CRITERIA:

South Carolina State Law and South Carolina State University personnel policies require that all employees must be evaluated at least annually prior to their annual performance review date.

EFFECT OF CONDITION:

Failure to comply with State regulations and ensure that employees performance is documented in their personnel file.

CAUSE OF CONDITION:

Lack of oversight by personnel responsible for ensuring the reviews were performed.

RECOMMENDATION:

We recommend that the performance reviews be performed as required. This is assist the University in ensuring that it has qualified employees that are performing their job in a satisfactory manner.

03-4 TRAVEL ADVANCES NOT CLEARED TIMELY

STATEMENT OF CONDITION:

Our testing of four travel advances outstanding as of May 15, 2003 disclosed the following:

1. A travel advance of \$6,932 was made on January 21 for travel on January 23 –25. The entire travel advance was still outstanding on the books of the University.
2. A travel advance of \$1,440 on March 20 for travel on March 29 to April 2. The entire travel advance was still outstanding on the books of the University.
3. A travel advance of \$3,195 was made on April 3 for travel on April 29 to May 5. The check did not clear the bank until April 29 but we could not determine whether the check was held by the employee or by University staff.

CRITERIA:

Proviso 72.36 of the Appropriations Act requires all travel advances to be repaid within 30 days after the end of the trip or by July 15, whichever comes first.

EFFECT OF CONDITION:

Failure to comply with State regulations and the condition could lead to a loss of the funds.

CAUSE OF CONDITION:

Failure by University personnel to monitor the travel advances to ensure that they are repaid in a timely manner.

RECOMMENDATION:

The University should implement procedures to ensure that travel advances are only advanced as necessary and are repaid in a timely manner.

03-5 AUXILIARY ENTERPRISE OPERATING AT A DEFICIT

STATEMENT OF CONDITION:

The housing auxiliary enterprise has operated at an accumulated deficit. The same finding was cited in prior years' management letters.

CRITERIA:

Proviso 72.18 of the 2002 – 2003 Appropriations Act requires that fees applicable to student housing and dining halls be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services.

EFFECT OF CONDITION:

The University is in violation of State law.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

We recommend that the University implement procedures to cover these deficits and set rates high enough in the future to ensure that all auxiliary enterprises are self-supporting.

03-6 FINANCIAL RECORD DEFICIENCIES

STATEMENT OF CONDITION:

The books of the University do not accurately reflect the proper account balances. Entries are being made by University personnel because they are not aware of the relationships between various accounting systems including student receivables and loans. We noted instances of accounts being closed out even though there should be a balance in the account. Some specific examples of the deficiencies noted are detailed below. Additional examples are cited in the remaining reportable condition comments.

1. The University wrote approximately \$919,000 of accounts payable checks in July that were posted to the general ledger as of June 30, 2003 causing an understatement of cash and accounts payable. Also approximately \$31,000 in pay advances on checks issued July 17, 2003 were deducted from cash and included in receivables as of June 30, 2003.
2. Approximately \$120,000 of tax garnishments were posted incorrectly to various clearing accounts in the loan fund instead of to the student refunds payable account.
3. The University wrote off the balance of prepaid postage from the prior year end and did not record any prepaid postage as of June 30, 2003. The prior year's prepaid postage was written off as a debit to the accounts payable account instead of being charged to an expense account. In addition, our audit disclosed a \$123,300 prepaid expense that was not recorded by the University.
4. The University is not reconciling the loan activity recorded in its general ledger to the loan activity reported in its Loan Management System (LMS). Numerous errors were found in the recording of current year's new loans, repayments and cancellations. As of June 30, 2003, there was a net unidentified difference of approximately \$10,000 for the three loan programs between LMS and the general ledger.
5. The University is not writing off uncollectible accounts or loans receivables from the detailed subsidiary listings. The detailed listing for student accounts receivable as of June 30, 2003 totaled approximately \$4,192,000 with approximately 30% having no activity in over 6 years. In addition, the University does not have any support for the percentages it has been using in calculating the allowance for doubtful accounts.

6. One of the agency funds had a asset of approximately \$943,000 for which the University had no support. After extensive research, it was determined that the asset should be offset against a liability account.
7. Accounts payable and expenses recorded on the general ledger included approximately \$105,000 in accounts payable for the next fiscal year.
8. Accounts payable included approximately \$15,000 in debit balances that should have been classified as an accounts receivable resulting in an understatement of accounts payable and accounts receivable.
9. The accrued payroll and related liabilities accounts are not reconciled to the supporting documentation and subsequent payments. We noted that accounts were adjusted to a zero balance when they should have had a balance and numerous accounts had a debit balance when they should have had a credit balance. Also, the University did not record a payable to the State Accident Fund for additional premiums due for workmen's compensation coverage. The liabilities were understated by approximately \$470,000 for the year ended June 30, 2003.
10. The University's general ledger reflects various liability accounts relating to collections on students accounts receivable. Most of these entries are based on feeds from the student information system (SIS). There is no report prepared by the University that can be used to reconcile the balance in these accounts.
11. The University recorded two of the June 30, 2002 adjusting entries twice and did not record one of the adjusting entries.
12. We also noted state revenue and expenditure accounts that had negative balances due to moving revenues or expenses charged to state program in a prior year to a federal grant account in the current year. This causes a misstatement of grant revenue between federal and state sources. . This occurred because the University is not allocating expenditures between the different funding sources when the expense is incurred.

The same or similar types of deficiencies were also cited in the prior year's management letter.

CRITERIA:

Generally accepted accounting principles for the recording of transactions and the maintenance of accounting records.

EFFECT OF CONDITION:

The records of the University do not accurately reflect its financial position or results of operations and the University does not have adequate safeguards in place to prevent the loss of assets.

CAUSE OF CONDITION:

Lack of policies and procedures in place to ensure that all account balances are stated correctly and that controls are in place to safeguard assets. There is also a lack of coordination between the various Departments of the University to ensure that all required reconciliations are being performed. Various University personnel do not appear to be adequately trained to perform their assigned functions.

RECOMMENDATION:

We recommend that the University review and revise their procedures to ensure that all accounts are reconciled to supporting documentation monthly. University personnel should be aware of the consequences of recording any adjusting entries and all entries should be reviewed and approved by an employee that understands the impact on all of the accounts affected before they are posted. Revisions should be made to any programs necessary to

ensure that all transactions between the various accounting systems are posted properly and that all required reports are produced to allow University personnel to reconcile the accounts.

03-7 DEFICIENCIES IN RECEIVABLES

STATEMENT OF CONDITION:

In addition to the findings cited above, we noted the following conditions regarding certain receivables recorded in the University's general ledger.

1. The University only record accounts receivable on its general ledger at year-end. The account receivable that is recorded is net of the allowance for bad debts instead of being recorded at the gross amount with an offsetting allowance account. The receivable that is set up is reversed at the beginning of the next fiscal year. There is no reconciliation of student accounts receivable during the year to ensure that all charges are posted to the students' accounts. We also determined that the list used by the University to record the receivables at year-end was not a complete lists. The listing used excluded some receivables and excluded all credit balances due to students. The receivables recorded by the University at June 30, 2003 understated gross receivables by approximately \$288,000 and understated liabilities by approximately \$460,000. A similar condition existed at June 30, 2002 requiring a prior period adjustment of approximately \$700,000. The listing with the correct total receivables does not breakdown the type of account receivable so that the University can accurately record the revenue as being from tuition or from auxiliary enterprises.
2. The University recorded a \$200,000 receivable due from the South Carolina State University and the related revenue for a scholarship gala that had not yet been held.
3. The University recorded a receivable for a grant in excess of the amount expended causing an overstatement of grants receivable and federal revenue.
4. The University recorded a \$14,236 receivable for a federal subsidy for which they were no longer allowed to receive reimbursement. When notified by the federal agency in August 2003, they recorded the reversing entry in the next fiscal year instead of adjusting the books as of June 30, 2003.
5. The University paid legal fees for an employee who agreed to reimburse the University via payroll deductions. The receivable was never set up on the University's books.
6. The University received a \$32,000 reimbursement of federal expenditures which was for stipends paid to various students. The funds were credited to the student's accounts instead of to the federal grants receivable account when they were received. This created credit balances in some student's accounts which were then refunded to the student.
7. The University has a mortgage receivable on a piece of property and no payment was received for the months of March, 2003, June 2003 or July 2003 through October 2003 (the date of our testing). No late fees have been assessed and no one at the University appeared to be aware that the payments had not been received.

CRITERIA:

Generally accepted accounting principles and good fiscal policies.

EFFECT OF CONDITION:

Lack of controls over receivables could lead to the loss of funds. In addition, the amounts recorded as accounts receivable in the University's general ledger are not accurate.

CAUSE OF CONDITION:

The program is not set to automatically update student receivable balances in the general ledger based on postings to the subsidiary ledgers. In addition, University personnel do not perform an adequate review of account balances to ensure that all balances are correct.

RECOMMENDATION:

We recommend that the University set up its accounts receivable system so that receivables are recorded in the general ledger as they are billed. All receivable balances should be reviewed monthly to ensure that the receivables are being collected. Steps should also be implemented to ensure that receivables are set up based on adequate supporting documentation.

03-8 ERRORS IN INTERNAL TRANSACTIONS SCHEDULE

STATEMENT OF CONDITION:

The schedule of internal transactions prepared by the University to eliminate the revenues and expenses for financial statement purposes was not correct. The first schedule provided to us by the University listed an account number instead of an amount misstating the schedule by approximately \$160,000. After the schedule was redone by the University, we discovered that only accounts which were included on the prior year's schedule was included understating the internal transactions by approximately \$116,000.

CRITERIA:

Generally accepted accounting principles require the elimination of internal transactions from both revenues and expenses.

EFFECT OF CONDITION:

Failure to eliminate all internal revenues and expenses from financial statements.

CAUSE OF CONDITION:

Carelessness in the preparation of the schedule.

RECOMMENDATION:

We recommend that additional care be taken in the preparation of all schedules and that the amounts be agreed to the amounts recorded in the general ledger.

03-9 TRANSACTIONS WITH FOUNDATION NOT RECORDED PROPERLY OR IN A TIMELY MANNER

STATEMENT OF CONDITION:

The University receives funds from the South Carolina State University Foundation (the Foundation) as reimbursement for stipends and scholarships that the University awards. The University has been recording these receipts as credits to the students' accounts receivable instead of as gift revenue. After receipt, the University should make an entry to record the expense and to credit the student's receivable account.

During the current year, the University reduced the amount due from the Foundation for prior year's use of University space. They also recorded additional receivables due from the Foundation for the use of University personnel in prior years. The University also reduced the amount due from the Foundation as of June 30, 2002 for the rental of certain real estate from the Foundation. The net adjustment was to reduce the receivable due from the Foundation by approximately \$185,000 as of June 30, 2002.

We also noted that the University is continuing to allow the Foundation to use University personnel and space without making any payments on the prior or current year's receivables.

CRITERIA:

Generally accepted accounting principles (GAAP) require the recording of the funds as a gift when the University makes the determination as to the recipient of the stipend or scholarship. GAAP also requires that transactions be timely recorded at their proper amounts. Good fiscal controls require that the Foundation pay for past services before additional services are rendered.

EFFECT OF CONDITION:

Misstatement of revenues and expenses in prior years.

CAUSE OF CONDITION:

Failure to obtain information in a timely manner regarding funds received from the Foundation in a timely manner and not being aware of the requirement to record these receipts as gift revenue. Also, the current University staff was not aware of agreements entered with the Foundation in prior years.

RECOMMENDATION:

We recommend that the University ensure that all receipts are properly recorded. The University should also ensure that all revenues and expenses with the Foundation are recorded at their correct amounts and that payments are received from the Foundation before additional State resources are expended.

03-10 DEFICIENCIES IN GRANTS AND GRANTS ACCOUNTING

STATEMENT OF CONDITION:

Our audit of the various federal, state and private grant programs revealed the following:

1. We noted state revenue and expenditure accounts that had negative balances due to moving revenues or expenses charged to state program in a prior year to a federal grant account in the current year. This causes a misstatement of grant revenue between federal and state sources.
2. One federal grant as of June 30, 2002 had accounts payable overstated by approximately \$195,000 resulting in an understatement of deferred revenue by a similar amount.
3. Various grants had receivables recorded which the University determined were not collectible for various reasons.
4. Grants receivable had to be adjusted by approximately \$137,000 and deferred revenue had to be adjusted by approximately \$677,000 to accurately reflect the balances attributable to the grant programs.
5. Grants with no current year revenue and expenses still had balances in their accounts receivable or deferred revenue liability accounts.
6. The University recorded deferred revenue on scholarship accounts, which should not be deferred and adjusted the deferred revenue liability on private grants through the federal grants revenue account instead of private grants.
7. Grants were noted for which the University recorded both a grant receivable and a deferred revenue. The amounts should have been netted.

8. There were some grants which the University told us were uncollectible and written off as of June 30, 2002 that the University actually collected prior to the completion of the prior year's audit.
9. The University is not timely billing and collecting grants receivable. There is no accounts receivable aging listing for grants.
10. The revenues and expenses for several of the grants listed on the schedule prepared by the University did not agree with the general ledger. Four grants that had state revenue were listed on the schedule as federal grants. One grant was listed on both the federal and state schedule but only had federal revenue.
11. The University recorded approximately \$18,000 of accrued leave liability as of June 30, 2002 on a program that had ended in a prior fiscal year.
12. One state grant recorded in the University's general ledger reflected negative revenues and expenditures of approximately \$79,000 because the University reclassified the expenses as being paid out of unrestricted funds in the current year.

CRITERIA:

Generally accepted accounting principles, the Single Audit Act and OMB Circular A-133 require the preparation of accurate financial information and the maintenance of supporting records.

EFFECT OF CONDITION:

The schedule of federal financial assistance prepared by the University was not accurate and the various account balances relating to grants were not correctly stated on the University's general ledger.

CAUSE OF CONDITION:

Lack of policies and procedures regarding the reconciliation of the schedule to the general ledger and the recording of expenditures when grants are funded from multiple sources. There also appears to be a lack of adequate personnel to supervise and perform various functions related to the grants in a timely manner and to follow-up on old balances. Also, the schedule now being prepared is done manually and is over 1,000 rows long.

RECOMMENDATION:

We recommend that the entire system used in accumulating the schedule be reviewed. A program should be prepared so that the schedule could be downloaded from the University's general ledger. Additional adequately trained and supervised personnel should be hired to ensure that all grant files are kept up to date and contain all required documents and that billings are performed in a timely manner and old receivables are followed up on. Separate accounts should be maintained for federal and state expenditures.

03-11 CAPITAL ASSET DEFICIENCIES

STATEMENT OF CONDITION:

Our audit of capital assets and related accumulated depreciation disclosed the following:

1. 8 pieces of equipment costing approximately \$515,000 of capital assets were not added to the fixed asset listing until after the end of the fiscal year. 5 of the 8 pieces were set up at the incorrect costs because the University did not take sales tax into account or the book value of assets traded-in into account in determining the costs of the new capital assets.

2. Dishwashing and refrigeration equipment costing approximately \$101,000 that was obtained under a capital lease in December 2000 are still not recorded in the University's fixed asset listings.
3. The University did not set up a capital lease for \$87,775 for 10 new pianos. Only 2 of the pianos met the capitalization limit of \$5,000. All 10 pianos were set up in the University's fixed asset system using the costs of \$101,000 that was attributable to the dishwashing and refrigeration system discussed above.
4. The University recorded approximately \$134,000 of prior year equipment additions in the current year in the fixed asset system.
5. The costs of buildings as of the prior year-end supplied to us by the University did not agree to the prior year audit balances by approximately \$70,000 and had to be reworked. Also, the schedule did not contain the current year's additions of approximately \$371,000. These errors caused depreciation expense to be misstated.

CRITERIA:

Generally accepted accounting principles require the reconciling of all records to supporting detail in a timely manner.

EFFECT OF CONDITION:

The balance in capital assets was misstated.

CAUSE OF CONDITION:

Failure to adequately review the capital asset listing and to reconcile additions recorded on the schedule each year to the amount reported as expended.

RECOMMENDATION:

All equipment additions on the capital asset listing should be reconciled to the amount expended in the general ledger. The schedule should be reviewed for accuracy to ensure that all balances are carried forward properly from the prior year.

03-12 DEFICIENCIES IN CONSTRUCTION IN PROGRESS AND RELATED ACCOUNTS

STATEMENT OF CONDITION:

Our review of the construction in progress schedule prepared by the University disclosed numerous deficiencies as follows:

1. The schedule contained numerous old projects that had never been closed and some projects were omitted from the schedule.
2. The amount shown for project expenditures did not include additional accounts payable that had been identified by the University.
3. Retainage payable as of June 30, 2002 was overstated by approximately \$110,000.
4. The schedule contained one project with cumulative costs of approximately \$92,000, which was abandoned in a prior year and never removed from the schedule.
5. The schedule did not account for the project expenditures by funding source and cumulative expenditures on two projects did not agree to the general ledger resulting in an understatement of construction in progress of approximately \$14,000.

6. The University is not reconciling project expenditures to the Statewide Permanent Improvement Status report as required.
7. The University had drawn Capital Improvement Bond proceeds in excess of expenditures on three projects. The excess drawn had been recognized as revenue resulting in an cumulative overstatement of approximately \$703,000 as of June 30, 2002 and \$402,000 as of June 30, 2003.

CRITERIA:

Generally accepted accounting principles require the preparation of accurate schedules supporting the financial statements that agree to the general ledger.

EFFECT OF CONDITION:

Construction in progress schedule prepared by the University was incorrect and had to be reworked. The University had drawn down State funds in excess of expenditures for capital improvement bond funded projects.

CAUSE OF CONDITION:

Unknown

RECOMMENDATION:

The University should ensure that all amounts reported for construction in progress agree to supporting documentation and that the amounts are reconciled to the State Permanent Improvement reports. All projects should be closed out in a timely manner.

03-13 UNDERSTATEMENT OF ACCRUED PAYROLL AND RELATED BENEFITS

STATEMENT OF CONDITION:

Our audit disclosed that the University was not correctly calculating the amount accrued payroll attributable to faculty that work nine months and elect to be paid over a twelve-month period. The total understatement as of June 30, 2003 was approximately \$201,000. The liability was understated as of June 30, 2002 by approximately \$210,000.

CRITERIA:

Generally accepted accounting principles require the accurate calculation of liability balances.

EFFECT OF CONDITION:

Understatement of the liability as of year-end and misstatement of current year expenses.

CAUSE OF CONDITION:

The miscalculation occurred because the University only calculated the liability using 3 subsequent pay periods instead of 4 and because of the use on an incorrect rate for fringe benefits.

RECOMMENDATION:

We recommend that the University implement procedures to ensure that accuracy of the calculations for accrued payroll and related benefits.

03-14 COLLEGE WORK STUDY EXPENSES NOT RECORDED BY ACTIVITY

STATEMENT OF CONDITION:

The University is recording payments for college work study payments to students as student financial aid and is not recording them as an expense of the area of the University in which they are working. For example, a student that is being paid with college work study funds in the business office is not being reflected as an expense under institutional support. This finding was also cited in the prior year's management letter.

CRITERIA:

The industry audit guide published by the American Institute of Certified Public Accountants requires that these wages be allocated to the function in which the student is working.

EFFECT OF CONDITION:

The University was unable to present a breakdown of the functional expenses in its notes and has been presenting inaccurate information to the Commission of Higher Education.

CAUSE OF CONDITION:

Even though the University was made aware of this requirement in the prior year, they have not made the required changes to their procedures.

RECOMMENDATION:

All expenses should be allocated to the function benefiting from the expense.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

03-15 ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320 requires single audit reports to be submitted within 9 months after the end of the audit period for the fiscal year ended June 30, 2003. The University did not meet this requirement for the year ended June 30, 2003 because of the deficiencies cited above in their financial record keeping.

Criteria: OMB Circular A-133 Subpart C – Section 320.

Effect of Condition: Failure to comply with federal regulations.

Cause of Condition: Failure to have prior year audits completed timely.

Recommendation: Implement procedures to have records and financial statements completed and timely audited so that reports can be submitted within the required deadlines.

03-16 LOAN REPAYMENTS NOT STARTED TIMELY – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS

STATEMENT OF CONDITION:

Loan repayments under the program for one out of nineteen loans tested did not begin timely after the nine month grace period. The student graduated in May 2000 and the exit interview package was not sent to the student until March 2002. In March 2002 the University notified the student their first payment was due in October 2001 and they were seven months delinquent. Per discussion with loan management personnel, this is not an isolated case because of deficiencies in the system. The same finding was cited in the prior year's management letter.

CRITERIA:

The federal regulations require repayments to begin after a nine month grace period following after the student is not enrolled on at least a half-time basis.

EFFECT OF CONDITION:

The University has not required students to begin repaying the loans in accordance with the regulations.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that exit interviews are performed timely and that repayments start immediately after the grace period.

03-17 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA # 10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA # 10.500 COOPERATIVE EXTENSION SERVICE

STATEMENT OF CONDITION:

The schedule of federal expenditures prepared by the University listed two grants with expenditures of approximately \$85,000 under CFDA # 10.205 instead of 10.500. The same finding was cited in last year's management letter.

CRITERIA:

Federal regulations require the University to prepare an accurate schedule of federal expenditures.

EFFECT OF CONDITION:

Schedule prepared by University was incorrect.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that the schedule of federal expenditures is prepared accurately.

03-18 SUBRECIPIENT EXPENDITURES OMITTED FROM SCHEDULE – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION

STATEMENT OF CONDITION:

Expenditures for three subrecipients were omitted from the schedule of pass-through payments to subrecipients prepared by the University.

CRITERIA:

Federal regulations require the University to prepare an accurate schedule of federal expenditures.

EFFECT OF CONDITION:

Schedule prepared by University was incorrect.

CAUSE OF CONDITION:

Unknown

QUESTIONED COSTS:

None

RECOMMENDATION:

The University should implement procedures to ensure that the schedule of federal expenditures is prepared accurately.

OTHER MANAGEMENT LETTER COMMENTS

DEFICIENCIES IN BANK RECONCILIATIONS

Our review of the University's bank reconciliations for June disclosed 3 accounts that the amount shown on the reconciliation for outstanding checks did not agree to the detail listing of outstanding checks. This indicates that the cash balances were not actually reconciled to the general ledger. Also, our review of bank reconciliations disclosed that the University was not preparing and/or reviewing all bank reconciliations in a timely manner. Also some reconciliations were not incomplete because they showed a transfer on one bank account that was not reflected on the other account's reconciliation. A review of reconciliations during the year disclosed unidentified differences between the bank balance and the University's general ledger.

We recommend that all bank reconciliation be prepared and reviewed in a timely manner. All amounts shown on the reconciliation should be supported by accompanying information. Entries should be recorded on the University's records to adjust the balances to the reconciled bank balance. Similar findings were cited in the prior year's management letter.

BANK ACCOUNTS NOT RECONCILED BY FUND

As cited in prior management letters, the University is not reconciling its State bank accounts by fund. For example, the University's general ledger reflects loan fund deposits of approximately \$273,000, however, the State Treasurer only has loan funds on deposit of approximately \$168,000. The University's loan fund are not receiving all of the interest income which it should since the State Treasurer's balance is less than the University. The University appears to have used some restricted deposits for operating purposes. This finding was also cited in the prior year's management letter.

We recommend that the University reconcile cash by fund. Cash used that was for restricted purposes should be replenished. Procedures should be implemented to ensure that cash that is on deposit for restricted purposes is not used for operating expenses.

LACK OF CONTROLS OVER CASH BALANCES

The University incurred approximately \$59,000 of insufficient fund bank charges during the year because of the presentation of checks to the bank when there were not adequate funds available. This appeared to be caused because of the lack of management oversight of cash balances.

We recommend that the University set up a cash management system to monitor its balances to ensure that adequate funds are available before checks are prepared.

.ANNUAL LEAVE LIABILITY MISTATED

Our testing of the annual leave balance disclosed two instances in which leave taken in June was not entered into the system until July and August causing the accrued annual leave balance to be overstated at June 30, 2003.

We recommend that the University ensure that all leave is entered into the leave system in a timely manner.

ACCOUNTS PAYABLE MISSTATED

Monthly invoices payable to one vendor totaling approximately \$25,000 for the months of July through December, 2003 had been entered into the system and expensed even though the payments were for services to be performed and paid for in future months. Also, recorded accounts payable included one accounts payable that was understated and two accounts payable that were overstated resulting in a net overstatement of approximately \$3,500.

We recommend that additional care be taken in the recording of accounts payable to ensure that the amounts recorded are accurate.

PAYROLL ADVANCE NOT CLEARED

Our testing of payroll advances disclosed the advance for one of the five tested was still on the books as a receivable even as of June 9, 2003 even though the check was voided on March 5, 2003 resulting in an overstatement of receivables and an understatement of cash.

We recommend that all transactions be timely recorded on the general ledger. This would have been detected through a timely review of the outstanding receivables.

INSURANCE COVERAGE INADEQUATE

Our review of the University's insurance coverage of buildings disclosed that three buildings were insured for less than their costs and that two buildings were not insured at all. This finding was also cited in last year's management letter.

We recommend that the University ensure that they have adequate coverage on all of the University's buildings.

PAYROLL RECONCILIATIONS AND ERRORS IN PREPARING PAYROLL TAX RETURNS

The University is not reconciling wages recorded in its general ledger to the monthly payroll printouts or to the payroll tax returns. In additions, we noted that the University is preparing their quarterly payroll tax returns (form 941) incorrectly in that they are including nontaxable compensation such as retirement plan and cafeteria plan withholding in taxable wages on the form. The University is manually preparing the payroll tax returns instead of using a program to prepare them. This finding was also cited in the prior year's management letter.

We recommend that the University obtain a program that will work with their current payroll system to accurately prepare all required filings with the taxing authorities.

ERRORS IN OPERATING AND CAPITAL LEASE SCHEDULES

The schedule of capital lease payments prepared by the University did not agree to the general ledger. The schedule omitted a payment on one lease and added two additional payments that were not made on a second lease. The capital lease schedule also included \$3,597 in late fees and penalties that were paid.

The University is not reconciling the lease payments on the operating lease schedule that they prepare to the general ledger. Items beside rental payments are being posted to the rental expense accounts in the general ledger. In addition, we noted that the University is making payments on leases that expired in prior fiscal years and that they are not making the monthly payments on leases as they are due. The University will miss several months' payments and then make one large payment including a late fee. Also, we noted that the dates on the lease register do not agree with the dates on the lease.

We recommend that the University ensure that all schedules supporting financial statement amounts are prepared correctly and that all lease payments are charged to the correct accounts in the University's general ledger.

WEAKNESSES NOTED IN COMPUTER CONTROLS

A review of controls over the University's mainframe computer system disclosed the following:

1. There is no fire suppression system to protect against damage in the event of a fire.
2. There is no disaster recovery plan in place an according to University personnel, there had not been a test of any disaster recovery system since at least 1996.

3. There are no formal policies in place regarding the backup of data. Backups are maintained offsite at and individual's home. The backup tapes that are maintained on-site are stored in the computer room and not in a safe.

We recommend that a thorough review be performed over all computer controls. A disaster recovery plan should be prepared and tested. Policies regarding the backing up and safekeeping of data should be implemented.

PERSONNEL FILES IN NEED OF IMPROVEMENT

In performing various audit test, we noted that improvements were needed in the maintenance of employee personnel files. Deficiencies noted included problems in located employee leave slips and other employee's information in the wrong file. The files were disorganized and were not in any logical date sequence.

We recommend that all personnel files be reviewed and organized to ensure all required information is present.

LACK OF EFFECTIVE INTERNAL AUDITOR

The University's internal auditor is not performing internal audit functions. Based on an interview with the internal auditor, we were told that his main duty had been to review audit findings and work with various departments to correct the findings. In addition, the University has not had an internal auditor since July 2003. The same finding was cited in the prior year's management letter.

We recommend that the University consider implementing an internal audit department that performs audits of various departments of the University. These audits could include reviewing separation of duties, reconciliations, departmental expenditures, capital asset observations, etc.

SOUTH CAROLINA STATE UNIVERSITY

STATUS OF PRIOR AUDIT FINDINGS JUNE 30, 2003

During our audit, we reviewed status of corrective action taken on most of the findings contained in our report on the University for the year ended June 30, 2002 and dated March 7, 2003.

The following findings cited in the prior year's report continued to exist during the current audit period.

- 02-1 Indirect costs due General Fund of the State not timely remitted
- 02-4 Financial record deficiencies
- 02-5 Errors in grants schedule
- 02-7 Capital asset deficiencies
- 02-8 Accounts receivable not recorded during the year
- 02-9 Inadequate follow-up on outstanding receivables
- 02-10 College work study expenses not recorded by activity
- 02-12 Auxiliary enterprises operating at a deficit
- 02-16 Loan repayments not started timely
- 02-18 Expenditures reported under wrong CFDA number

The following findings were corrected.

- 02-2 Violation of fee waiver provision
- 02-3 Attorney fees incurred without Attorney General approval
- 02-6 Incorrect fringe rate used in calculating accrued leave
- 02-11 Violation of bond covenants
- 02-13 Reported costs in excess of amounts recorded in general ledger
- 02-14 Required match not met
- 02-15 Required monitoring of subrecipients not performed
- 02-17 Documentation of hardship not obtained

The following other management letter comments are repeated in the current year.

- Deficiencies in bank reconciliations
- Bank accounts not reconciled by fund
- Insurance coverage inadequate
- Payroll reconciliations and errors in preparing payroll returns
- Errors in operating and capital lease schedules
- Lack of effective internal auditor

The following other management letter comments were corrected.

- Lack of controls over petty cash
- Sales tax misstated
- Student deposits misstated
- Leave slips not approved in advance
- Deferred revenue miscalculated
- Indirect costs due General Fund of the State misstated
- Violation of purchasing card policies
- Payroll deficiencies
- Minutes of board meetings not prepared timely

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

02-13 Corrected this fiscal year.

02-14 This audit finding is no longer valid. The University received clarification from the Deputy Administrator, USDA/CSREES/SERD, stipulating that regulation “7 C.F.R. 3419.6 does not contain a time limitation on the use of the matching funds by an eligible institution... .., and such funds may be carried over from one fiscal year to the following fiscal year.” Therefore the University is not in violation of matching requirements.

02-15 Corrected this fiscal year.

02-16 This finding still existed in fiscal year 2003. The Treasurer’s Office has not been adequately staffed to monitor collections in this program. The University has currently outsourced the loan management of the Perkins program and we expect to witness timely notification and follow-up to our graduates along with timely repayments to the Perkins loan program.

02-17 Corrected this fiscal year.

02-18 This finding still existed in fiscal year 2003. The University has procured the services of consultants to assist in the development of the schedule of federal expenditures for fiscal year 2004. The University is currently seeking a Grants Director that will ensure the accuracy of grant and contract accounts, records and reports.

CORRECTIVE ACTION PLAN

APPENDIX A

Contact Person: Joseph M. Pearman Jr., CPA
Assistant Vice President for Fiscal Affairs

Number

FINANCIAL STATEMENT FINDINGS

03-1 INDIRECT COSTS DUE GENERAL FUND OF THE STATE

The University remitted \$330,000 of indirect costs to the General Fund of the State in fiscal year 2003 but still owed the General Fund of the State \$595,000 of indirect costs at June 30, 2003. In fiscal year 2004 the University remitted \$660,000 of indirect costs to the General Fund of the State near fiscal year end. For fiscal year 2005 the University has implemented a practice of remitting all indirect costs due the General Fund of the State on a quarterly basis.

03-2 REQUIRED APPROVAL FOR LEASES NOT OBTAINED

The University has reduced the due from the Foundation amount by the value of the usage of a Foundation owned parking lot near the campus in Orangeburg. The Foundation sold the parking lot in December 2003 and the University has not been assessed any reduction in the due from since that time. The University/Foundation is currently having discussions with representatives of the Columbia Metropolitan Airport attempting to find a suitable replacement for the space in an attempt for the University/Foundation to cancel the lease. The University will obtain approval from the Office of General Services prior to any future leases, rental or use of non-state owned real estate.

03-3 ANNUAL PERSONNEL REVIEWS NOT PERFORMED

We recognize this as a campus-wide problem and are working on methods to enforce the requirement of completing timely evaluations. The Human Resources Management Office submits several e-mails to supervisors notifying them that a performance review is due. Additional controls will be discussed and implemented to alleviate this weakness.

03-4 TRAVEL ADVANCES NOT CLEARED TIMELY

- (1) This advance was issued for a trip that took place on January 23, 2003. University records show that the requestor submitted the recapitulation in a timely manner (February 18, 2003). The Accounts Payable asked for more detailed information (itemized invoice) from the requestor. After repeated attempts to obtain this information a fax was received on May 15, 2003. The travel advance form will be modified to state that the requestor's paycheck will be garnished for any unsupported expenditures from the advance. This practice will be implemented immediately to ensure that the University is in compliance with Proviso 72.36.

- (2) In this instance the requestor indicated that there was a family emergency and was granted an extension. The travel advance form will be modified to state that the requestor's paycheck will be garnished for any unsupported expenditures from the advance. This practice will be implemented immediately to ensure that the University is in compliance with Proviso 72.36.
- (3) The travel advance request was submitted to the Office of Accounts Payable approximately a month in advance of the travel. The Office processed the check and securely housed the check in the Office until the day prior to the travel.

03-5 AUXILIARY ENTERPRISE OPERATING AT A DEFICIT

The University was able to reduce the overage of liabilities over assets in the housing enterprise from the prior year. We will continue to strive to decrease liabilities and increase assets. In fiscal year 2004 the University implemented a Board approved \$130 housing covenant fee per semester. The University also increased the housing fee in fiscal year 2005 to aid in making the enterprise self-supporting.

03-6 FINANCIAL RECORD DEFICIENCIES

- (1) See 03-6 (2)
- (2) The University has recruited and placed new personnel throughout the Finance Department. The personnel consist of two Certified Public Accountants and a Vice President for Finance and Management Information Systems with 20 years of higher education experience. The University also has in place a new Accounting Manager, Treasurer and Director of Budgets with vast experience working in higher education. With these changes the Finance Department has the ability to properly oversee and ensure accurate postings to the University's financial records. A complete review and updating of the finance policies and procedures is underway and is expected to be complete by the end of fiscal year 2005.
- (3) The Controller, Accounting Manager and Director of Account Payables are tasked with the review of all prepaid expenditures and proper reversal of prior year prepaid expenses. (See 03-6 (2) above).
- (4) The University did not have adequate staffing in the Loan Management area to ensure timely and accurate postings to the Loan Management System (LMS). In September 2004 the University privatized the operation of loan management to Campus Partners. Reconciliations between the Campus Partners monthly activity reports will be reconciled to the University's records on a monthly basis by a responsible accountant in the Controller's Office. The reconciliation will be reviewed for propriety and approved by the Accounting Manager.
- (5) The University wrote off to bad debt expense \$1.2 million in fiscal year 2004. This consisted of receivables from student's accounts that had no activity for greater than five years. The University's Treasurer is enforcing the policy that students clear up all outstanding debt to the University prior to being enrolled

- with the University or receiving transcripts. This enforcement will result in a reduction of outstanding receivables. The University will continue to write off debts that are deemed to be uncollectible on an annual basis. The Finance area is analyzing the percent of write offs to determine the appropriate percentage to maintain as an allowance for doubtful accounts.
- (6) The University has obtained the detail data to reconcile these accounts for fiscal year 2004. Reports for reconciling these accounts will automatically be generated from the FAMs module for fiscal year 2005.
 - (7) The University left the books open on the SCT system for fiscal year 2003 and for fiscal year 2004 in order to provide additional time to prepare and post closing entries. The \$105,000 of payables was inadvertently posted as of June 30, 2003 instead of in the records of 2004. The University will revert to only having one fiscal years books open at any one time until such time that staff is adequately trained to ensure that transactions are posted to the correct fiscal year's books.
 - (8) See 03-6 (2)
 - (9) The University has reconciled to supporting documentation and subsequent payments the accrued payroll and all related liability accounts for June 30, 2004. The Assistant Vice President for Fiscal Affairs will ensure the Controller and Accounting Manager continue the practice of reconciling these accounts timely. There was an increase in the workers compensation premium in fiscal year 2003 and the payment was not made as of June 30, 2003. The University failed to post a liability.
 - (10) The University has produced a system report that shows the detail of credits in the Unapplied Credit account. These amounts are a liability to the University until such time as a charge is posted to the student's account and a program to apply the credits is run.
 - (11) See 03-6 (2) above
 - (12) See 03-6 (2) above

03-7 DEFICIENCIES IN RECEIVABLES

- (1) The University has been operating their accounting system on a cash basis. Therefore receivables were not recorded until year end. Beginning for fiscal year 2005 the University has redesigned the subcodes and accounting rules in the Student Information System (SIS) to operate under the accrual basis of accounting, hence recognizing receivables when they are billed. The University had been running a report annually to detail the receivables by age type of receivable. Through discussions and analysis of the report we learned that the report did not consider all the subcodes receivables nor did it present the credit balances owed the students. A system report that is generated from the system was run and shows 100% of these balances by student. The Information Technology Department has designed a report that will reformat the data in the report to show the receivables and credit balances by age and subcode (type). The Controllers Office will begin to review these receivables on a monthly basis to ensure accuracy and that receivables are being recovered.
- (2) This receivable has been reversed (See 03-6 (2)).

- (3) See 03-6 (2)
- (4) See 03-6 (2)
- (5) These funds were received from this employee. The Treasurer's Office will work closely with the Office of Accounts Payables to set up a receivable for any funds provided to employees that are not exchanged for goods or services.
- (6) The Treasurer's Office has a procedure in place that requires that a particular staff member open the mail and review the nature of checks received. If the staff member is not sure of the purpose of the check she/he asks an Accounts Receivable staff member to research to determine the appropriate posting of the funds. In this instance the check was received with a list of students' names. The staff member assumed that the check was to be posted to the student's account instead of FRS. The Treasurer has provided training to ensure that the staff member responsible for opening mail and submitting checks for deposit has a thorough understanding of the nature of the funds and if there is any question as to the purpose the staff member will bring it to the attention of the Treasurer and the Accounts Receivable Office.
- (7) This was a receivable for the sale of a parcel of land. The University received payment in full in fiscal year 2004. No late fees were assessed. The Controller will monitor the timeliness of collections on any future mortgage or notes receivable and assess any applicable late charges that can contractually or legally be assessed.

03-8 ERRORS IN INTERNAL TRANSACTIONS SCHEDULE

The Accounting Manager is tasked with ensuring the accuracy and completeness of the internal transactions schedule with review by the Controller. See response to 03-6 (2).

03-9 TRANSACTIONS WITH FOUNDATION NOT RECORDED PROPERLY OR IN A TIMELY MANNER

The University will require that any student scholarship and stipend payments received from the Foundation are recorded as gift revenue. Once the stipend/scholarship is posted to the students account an expense and reduction of the receivable will be recognized. The reduction of the June 30, 2002 was the result of analyzing an agreement between the University and the Foundation dated June 1998. The prior receivable from the Foundation was overstated as a result of the University overcharging the Foundation for the office space and for failing to reduce the receivable by rental of a parking lot used by University students. The University is working with the Foundation to receive payment on the outstanding receivable.

03-10 DEFICIENCIES IN GRANT ACCOUNTING

- (1) See 03-6 (2)
- (2) An experienced Grants Director is currently being sought after to ensure the accuracy of all grant accounts, the appropriate staffing in the grants area and timeliness of the collection of receivables. A thorough review of the deferred

- revenues, receivables, and payables will be performed on the fiscal year 2004 Schedule of Federal Financial Assistance.
- (3) During the review of the fiscal year 2004 and future Schedules of Federal Financial Assistance all receivables deemed to be uncollectible will be written off. A periodic review of grant receivables during the year will be performed by the Grants and Contracts Department.
 - (4) An experienced Grants Director is currently being sought after to ensure the accuracy of all grant accounts, the appropriate staffing in the grants area and timeliness of the collection of receivables. A thorough review of the deferred revenues, receivables, and payables will be performed on the fiscal year 2004 Schedule of Federal Financial Assistance. The University has also procured the services of consultants that will oversee the development of the 2004 Schedule of Federal Financial Assistance.
 - (5) The Grants and Contracts Department is currently being required to review the status of all grant accounts. Any accounts that have receivable or liability balances without activity will be analyzed to determine the appropriate action. If the receivable is valid and collectible a request for recovery will be made. If there is deferred revenue the Department staff will determine if the revenue has been earned or if the funds are due back to the grantor. The appropriate action will be taken. This review will include determining if these accounts need to be closed.
 - (6) See 03-6 (2)
 - (7) See 03-10 (4)
 - (8) See 03-10 (4). Responses to auditor questions and/or concerns will be routed through the Vice President for Fiscal Affairs Office and/or the Controllers Office to ensure accuracy in the response.
 - (9) The Finance Department is currently working with the Information Technology Office to develop a program that will present a grants receivable aging schedule.
 - (10) See 03-10 (4)
 - (11) See 03-10 (4)
 - (12) See 03-6 (2)

03-11 CAPITAL ASSET DEFICIENCIES

- (1) The University procured the services of a procurement consultant to analyze the capitalization of fixed asset procedures. The consultant also provided training to the Asset Manager. With the new Finance staff in place capital assets will be reviewed throughout the year to ensure that all new capital assets have been added to the general ledger in accordance with generally accepted accounting principles.
- (2) The fixed asset schedule will be adjusted to include the value of the dishwashing and refrigeration equipment. The system is not feeding information to the Fixed Asset module because of the object codes used for capital lease payments. The University is studying how to have the system feed asset information to the fixed asset module for capital leases.
- (3) The University will remove the pianos incorrectly valued at \$101,000 and include the value of the two pianos that meet the capitalization limit. See 03-6 (2).
- (4) The University procured the services of a procurement consultant to analyze the capitalization of fixed asset procedures. The consultant also provided training to

- the Asset Manager. With the new Finance staff in place capital assets will be reviewed throughout the year to ensure that all new capital assets have been added to the general ledger in accordance with generally accepted accounting principles. The Controllers Office in conjunction with the Asset Manager will review depreciation at year-end to ensure accuracy.
- (5) See 03-6 (2)

03-12 DEFICIENCIES IN CONSTRUCTION IN PROGRESS AND RELATED ACCOUNTS

- (1) The University closed eight completed projects in fiscal year 2004. The Controllers Office is monitoring closely the status of all active projects and will prepare an all-inclusive schedule for fiscal year 2004 and future years. The Assistant Vice President for Fiscal Affairs will review the schedule prior to submission to the auditors.
- (2) See 03-12 (1) above.
- (3) The Controller will provide support for all retainage payable shown on the schedule for June 30, 2004 and future years.
- (4) The schedule will be reviewed closely by the Controller and the VP for Fiscal Affairs to ensure only active projects.
- (5) The Controllers Office will begin to include the funding source of project expenditures on the schedule. Cumulative expenditures will be agreed to the General Ledger prior to submission to the auditor.
- (6) The University has been submitting monthly tapes that contain capital project transaction activity to the Capital Budgeting Section of the South Carolina Office of State Budgets (Budget Office). According to the Budget Office the expenditure data is not found on the tapes. The Finance and Information Technology staff is working with the Budget Office to try to rectify the problem and also provide the past data so the SPIRS reports can be updated to reflect the University transactions. We anticipate having this weakness rectified for fiscal year 2005.
- (7) These projects were on-going in fiscal year 2004. The University recognized expenditures without the drawdown of funds in order to reduce the overage drawn in the prior year. The University will continue to incur expenditures without a draw request until such time as the overage is absorbed. The Controllers Office will only request draws with supporting invoices to ensure that an expenditure has been incurred prior to requesting funds.

03-13 UNDERSTATEMENT OF ACCRUED PAYROLL AND RELATED BENEFITS
The University has properly calculated accrued payroll for June 30, 2004 to include the correct fringe benefit rate and 4 pay periods. See 03-6 (2).

03-14 COLLEGE WORK STUDY EXPENSES NOT RECORDED BY ACTIVITY
The University is exempt from the 25% match of the program. In the past all federal work-study expenditures have been captured in one federal account. The University staff is discussing methods to allocate these expenditures to the

appropriate functions during post-close. We anticipate having these expenditures allocated by function for the fiscal year ending June 30, 2005.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

03-15 ALL PROGRAMS

The University is modifying policies and procedures across the campus and recruiting staff with the appropriate skill sets to ensure the accuracy of record management. The University is on a campaign to strengthen the finance area of the University and is striving to provide timely records and reports to ensure audits can be completed quickly to allow for timely submission of single audit reports.

03-16 LOAN REPAYMENTS NOT STARTED TIMELY – CFDA # 84.038 FEDERAL PERKINS LOAN PROGRAM-FEDERAL CAPITAL CONTRIBUTIONS

The Treasurer's Office has not been adequately staffed to monitor collections in this program. The University has currently outsourced the loan management of the Perkins program and we expect to witness timely notification and follow-up to our graduates along with timely repayments to the Perkins loan program.

03-17 EXPENDITURES REPORTED UNDER WRONG CFDA NUMBERS – CFDA #10.205 PAYMENTS TO 1890 LAND-GRANT COLLEGES AND TUSKEGEE UNIVERSITY, CFDA #10.500 COOPERATIVE EXTENSION SERVICE

The University has procured the services of consultants to assist in the development of the schedule of federal expenditures for fiscal year 2004. The University is currently seeking a Grants Director that will ensure the accuracy of grant and contract accounts, records and reports. The Controllers Office will work closely with the Grants and Contracts Office to ensure accuracy of the schedule.

03-18 SUBRECIPIENT EXPENDITURES OMITTED FROM SCHEDULE – CFDA # 20.215 HIGHWAY TRAINING AND EDUCATION

The University has procured the services of consultants to assist in the development of the schedule of federal expenditures for fiscal year 2004. The University is currently seeking a Grants Director that will ensure the accuracy of grant and contract accounts, records and reports. The Controllers Office will work closely with the Grants and Contracts Office to ensure accuracy of the schedule.

MANAGEMENT'S RESPONSE

APPENDIX B

OTHER MANAGEMENT LETTER COMMENTS

DEFICIENCIES IN BANK RECONCILIATIONS

The University has been recruiting new qualified accountants to ensure appropriate staffing of personnel with the necessary skills to reconcile the bank accounts of the University in a timely manner. With the new staffing in place in the Controllers Office reconciliations will be performed of all accounts on a monthly basis, reviewed and approved by a responsible manager with appropriate adjustments made to the general ledger. Controls have been strengthened within the cashier's office to ensure timely and accurate postings and deposits to aid in the ease of reconciliations. The monthly reconciliations have begun for fiscal year 2005 with the appropriate adjustments being made to the general ledger. Bank reconciliations have been performed with appropriate adjustments, but not timely, for fiscal year 2004 as a result of insufficient personnel in the Controllers Office.

BANK ACCOUNTS NOT RECONCILED BY FUND

The University is aware of this weakness and is beginning to work on determining how to modify the existing bank account set up on the University's records and at the State Treasurer's Office to allow for reconciliations by fund to begin.

LACK OF CONTROLS OVER CASH BALANCES

The University had a practice of releasing checks to vendors immediately after a check run. The process of requesting the draw of funds from the State Treasurers Office can take between 2 – 4 days. As a result checks were cashed prior to funds being available and insufficient funds being charged to the University. In November of fiscal year 2004, after the new Finance administration was in place, a control was put in place for the Account Payables Department to not release checks until the Controller verified that the funds drawn from the State Treasurer's Office had been deposited into the expense account. This practice has stopped any charges to the University for insufficient funds.

ANNUAL LEAVE LIABILITY MISSTATED

The Human Resources Management Office has processes in place to timely enter leave taken. In these instances the leave slips were not submitted until July and August. The HR Management Office sends an e-mail to all faculty and staff mid June to remind employees to submit all leave slips to the Office by fiscal year-end. The Human Resources Management Office will notify the Assistant VP for Fiscal Affairs of all delinquent leave slips that are submitted after fiscal year end. The employee and the employee's supervisor will be counseled on the importance of timely submission of leave slips.

ACCOUNTS PAYABLE MISSTATED

The Controllers Office will be working closely and providing any training deemed necessary for the staff of the Office of Accounts Payable. This will aid in ensuring that accounts payables and prepaid expenditures are properly posted to the books of the University.

PAYROLL ADVANCES NOT CLEARED

See 03-6 (2)

INSURANCE COVERAGE INADEQUATE

In fiscal year 2004 the University asked the State Property and Appraisal Office to appraise the value of the buildings. We obtained the completed appraisal May 2004. The insurance coverage has been increased to provide adequate coverage of all buildings of the University.

PAYROLL RECONCILIATIONS AND ERRORS IN PREPARING PAYROLL TAX RETURNS

For fiscal year 2004 the Controllers Office has ensured that wages shown on the 941 forms exclude nontaxable compensation and reconcile to the general ledger.

ERRORS IN OPERATING AND CAPITAL LEASESCHEDULES

The Procurement Office has the responsibility of preparing the lease schedule. Procurement staff has worked with a member of the Information Technology Department to create a report that will accurately reflect the lease payments on the general ledger. The University has also contracted with Xerox for campus-wide photocopiers including the print shop. This will significantly reduce the possibility for errors on the lease schedule in the future since the majority of the lease payments on the schedule are for copiers and the Xerox lease is one payment for all copiers across the campus. The Controllers Office has been tasked with performing a thorough analysis of the lease schedule prior to submitting the schedule to the auditor.

WEAKNESSES NOTED IN COMPUTER CONTROLS

- (1) The fire suppression system is currently inoperable and has been for several years. A request to replace the current HALON system with FM200 is currently with the SODEXHO management team.
- (2) A copy of a disaster recovery plan was located however the plan was developed greater than 15 years ago and is antiquated. The Director of Information Technology is in the process of developing a new plan based on current technology and vendor agreements. The plan is scheduled to be completed by November 2004.
- (3) The Computer Operations and Procedures Manual contains a section on backup of data. This section instructs computer operation on the proper steps to take to perform data backup to tapes and disk. The rotation, duration, and location of backup tapes are discussed. Tapes are stored on-site and off-site. An additional

set of daily backups were kept with the night operator to provide an additional copy off-site, not as the only backup set. The University is purchasing a fire-proof safe for the computer center floor and revising the policy to reflect the use of this safe as well as the off-site facility we rent at a local bank.

PERSONNEL FILES IN NEED OF IMPROVEMENT

The Human Resources Management Office has assigned a full-time staff person to dedicate a portion of each day to reviewing all personnel files to ensure completeness and appropriate organization of the files.

LACK OF EFFECTIVE INTERNAL AUDITOR

The Board of Trustees has been seeking an experienced Internal Auditor. Job offers have been made to two applicants. Neither applicant accepted the offer. The position of Internal Auditor is currently posted as the search for an effective Internal Auditor continues.